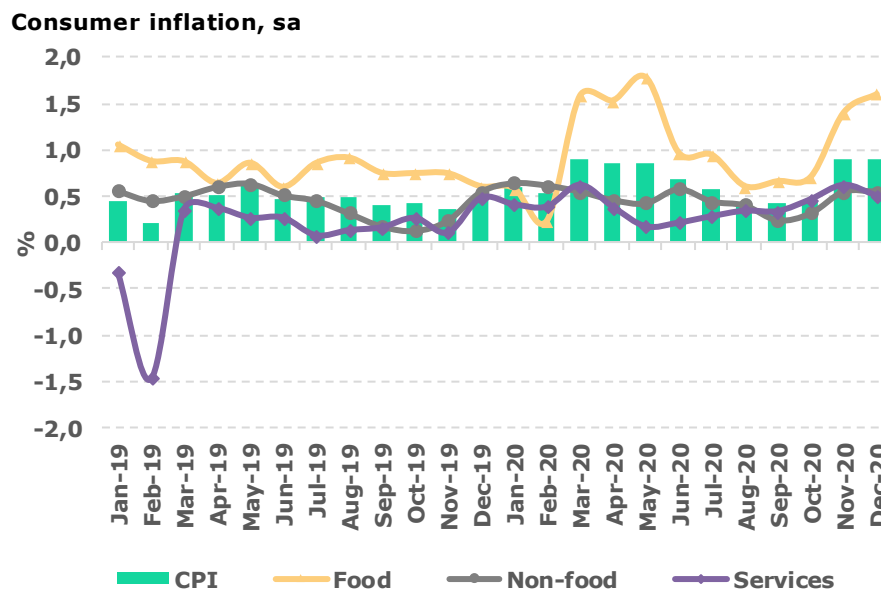


January 6, 2021

Inflation in December 2020 remained at the level of 0.9% mom. On an annualized basis, price growth accelerated to 7.5% from 5.4% yoy in December 2019, which is the highest reading since 2017. The pandemic and the negative economic consequences caused by it led to a significant increase in prices in 2020, including due to the large-scale injections of public funds into the economy. At the same time, a significant role in accelerating inflation was played by the weakening of state regulation of tariffs for housing and communal services in the fall of 2020, which was superimposed on the seasonal rise in prices for agricultural products and the weakening of the tenge. Taken together, these factors led to a reversal of the trend towards a slowdown in price growth observed in 2-3rd quarters, causing an acceleration in inflation at the end of the year. At the end of 2021, we forecast inflation slowdown to 6.5% yoy due to increased disinflationary factors.

According to the Bureau of National Statistics, inflation in December was 0.9% mom (7.5% in annual terms). Average annual inflation in 2020 was 6.8%. Taking into account the seasonal adjustment (sa), according to our estimates, inflation amounted to 0.9% mom (0.9% mom in the previous month).



Source: BNS, Halyk Finance

Food prices increased by 1.5% mom in December (+1.6% mom sa), providing a 0.6pp contribution to inflation. This was facilitated by the continued rise in prices for certain products, as well as the rise in prices for imported agricultural products. In particular, went up prices for such food products as sunflower oil (+8.6% mom), sugar (+2.5% mom), eggs (+6.1% mom), cereals (+1.7% mom) and fruits and vegetables (+4.9% mom). The prices decreased for bread (-0.3% mom), poultry meat (-0.3% mom) and carrots (-0.9% mom).

Non-food prices increased by 0.5% mom (+0.6% mom sa), providing a 0.14pp contribution to inflation. The cost of clothing and footwear (+0.4% mom), household items (+0.7% mom), detergents and cleaning products (+0.7% mom), as well as vehicles (+0.8% mom). The cost of diesel fuel went down noticeably (-0.6% mom) and gasoline (-0.1% mom).

In the service sector, tariffs grew by 0.4% mom (+0.5% mom sa), contributing to price increases of 0.13pp. Increased tariffs for hospital services (+0.7% mom), recreation and culture (+0.5% mom), services of restaurants and hotels (+2.5% mom), rental prices (+1.1% mom). A decrease in tariffs was noted for certain central heating services (-2.9% mom) and funeral services (-0.3% mom).

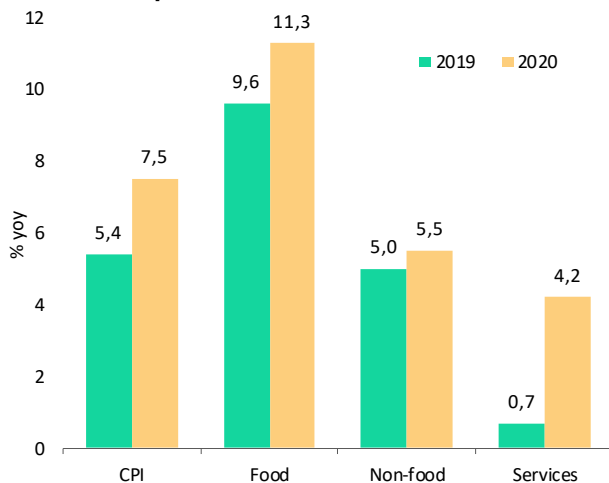
Consumer goods and services inflation, %

Type of good or service	December 2020			December 2019	
	mom	momsa	yoy	mom	yoy
All goods and services	0,9	0,9	7,5	0,7	5,4
Food products	1,5	1,6	11,3	1,1	9,6
Bakery and cereals	0,6	0,7	10,4	0,8	16,1
Meat	0,2	1,0	8,7	0,6	13,2
Fruits and vegetables	4,9	3,4	14,1	4,1	6,3
Milk products	0,6	0,8	8,7	0,7	6,4
Oils, fats	4,5	2,6	21,6	0,3	5,1
Non-food products	0,5	0,6	5,5	0,6	5,0
Clothes and footwear	0,4	0,4	4,8	0,8	6,7
Household appliances	0,6	0,6	8,0	0,5	6,2
Gasoline	-0,1	0,0	2,5	0,0	-4,6
Diesel	-0,6	-0,2	-6,6	0,2	1,1
Services	0,4	0,5	4,2	0,3	0,7
House maintenance, utilities	0,0	0,5	3,5	0,2	-2,7
Rest, leisure, culture	0,5	0,5	3,5	0,5	6,6
Education	0,2	0,2	4,0	0,0	1,8
Health care	0,5	0,4	7,4	0,5	6,6
Transportation	0,2	0,2	4,1	0,4	1,5
Telecom services	0,1	0,1	2,6	0,0	1,1

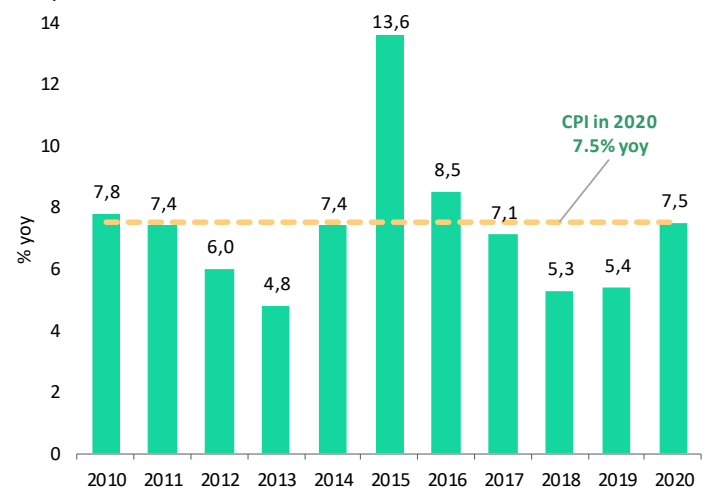
The table contains the main components of CPI

Source: BNS, Halyk Finance

The pandemic and the resulting negative economic impact have caused significant price increases in 2020. As a result, inflation reached a four-year high of 7.5% yoy, which is in stark contrast to 5.3% and 5.4% in 2018 and 2019. In 2020, inflation accelerated across all components. The strongest growth for the year was demonstrated by the dynamics of growth in the cost of services - from 0.7% yoy to 4.2% yoy. Food prices rose by 11.3% yoy (9.6% yoy in 2019), while the growth in prices for non-food products accelerated moderately from 5% yoy to 5.5% yoy. The largest contribution to the acceleration of price growth was made by services - almost 60%, more than a third of the price increase was provided by food products.

CPI and components


Source: BNS, Halyk Finance

CPI, 2010-2020


Source: BNS, Halyk Finance

Our opinion

The high impact on the increase in inflation in 2020 was due to the increase in tariffs of state monopolies. The autumn acceleration in price growth could have been completely avoided if government agencies had increased regulated tariffs in the summer, when inflationary pressure traditionally subsides. However, due to the unsuccessfully chosen time for raising tariffs, services in September-November grew by 1.8% at once, which almost corresponded to their growth in January-August. Naturally, this has spurred the overall rise in prices and higher inflation expectations in other components of the consumer basket starting from autumn 2020.

In order to replenish budget revenues last year, excise taxes on goods significantly increased, their growth in 11M20 reached 26% yoy, which also put upward pressure on inflation. State budget expenditures in 2020, according to preliminary estimates, increased from 20.4% of GDP to 24.1% of GDP, their influence was clearly manifested in an increase in performance in the construction market, an increase in investment into housing construction, and an increase in housing prices. Combined with extra-budgetary funds, public sector infusions exerted significant inflationary pressure.

The external negative background in 2020 was rather seriously supported by the weakening of the national currency, which depreciated by 8% against the US dollar from T383 to T413 per dollar (average annual rate). At its peak, the tenge weakened to almost T450 per dollar, which significantly fueled inflationary expectations in the first half of the year. At the same time, the tenge appreciated by 3% against the ruble last year, which, given the prevailing volume of imports from Russia, partially offset the negative impact of the weakening of the tenge against the dollar.

We do not expect significant improvement in the state of the economy next year. State budget expenditures will decrease, the growth of nominal wages will lag behind inflation, and the non-resource sector will experience a deficient domestic demand. Against this background, disinflationary trends will be more pronounced, as a result of which we expect inflation to slow down in 2021 to 6.5% yoy.

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Research department

Stanislav Chuev	Head
Asan Kurmanbekov	Macroeconomics
Dmitry Sheikin	Macroeconomics
Vladislav Benberin	Fixed income
Madina Meterkulova	Equity
Almas Almaganbetov	Equity

E-mail

s.chuev@halykfinance.kz
a.kurmanbekov@halykfinance.kz
d.sheikin@halykfinance.kz
v.benberin@halykfinance.kz
m.meterkulova@halykfinance.kz
a.almaganbetov@halykfinance.kz

Address:

Halyk Finance
Abay av., 109 «B», 5th fl
A05A1B4, Almaty, Kazakhstan
Contact. +7 727 357 59 77
www.halykfinance.kz

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